The Meter-Taylor & Martin, Inc.'s Quarterly Newsletter

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Transportation (Trucking) Update (9-1-2019)

Did the past three months fly by for you? They have for me. It happens every year. Summer flies by, winter passes like a ice floe. Think about it; aren't our days (daylight) longer in the summer and much shorter in the winter? What gives, summer should last longer! Enough of my mourning the passing of Summer-2019, there are bigger issues to discuss.

The transportation market has confirmed what we were seeing 3 months ago. Freight has slowed, used tractor prices (at auction) are down, measurably. New asking prices are softer. No one wants to hold inventory too long; the market will go against you. Why? There are plenty of reasons. Some reasons for the negative changes are bigger and some are smaller. Many causes are direct, and some are indirect.

So what are the reasons and/or causes? Here are a few: Freight volumes are lower, Spot freight rates-down, China tariff issues hightened, Federal government [Executive & Legislative Branches] action (and inaction -e.g. Highway bill), Strong evidence of a global (and USA?) slowdown (recession?), US Ag Economy suffering (food/feed & livestock), Stock market jitters (possibly understated), Oil & natural gas prices weaker, Auto/Pickup/SUV sales numbers lower…….. Add your reason(s) here, if you would like, ____________________, still there are more.

Despite the above, there is also optimism out there! Where? The consumer is still consuming. Or on a lighter note: No high school or college football team (as of August 23) has a losing record. Everyone still holds out optimism that their favorite team will have a good/great season. See, there is hope. Actually, optimism and prosperity still abounds in the USA. Given the choice of half-full vs. half-empty, my glass is half-full!! How could it not be? Need Proof? I offer a couple of photos of some things that my fourteen month old granddaughter has done, that makes me smile. Hopefully you will smile as well. Photos: She placed "Red Bear" and a doll in her rocker and then rocked them; and she made Red Bear take a dip (yes, it was then laundered). I have more photos, just ask.


So, are we headed into a recession? Transportation, as a leading economic indicator, historically suggest we will, sooner rather than later. Having made that statement, we should have had a recession in the 2016-2017 time frame. We had a mild stock market pull back, but no recession.


So, what has transpired in the past three months? Read on, to find out our take on the market today. [You may also want to refer back to our last newsletter to see what we said then.]

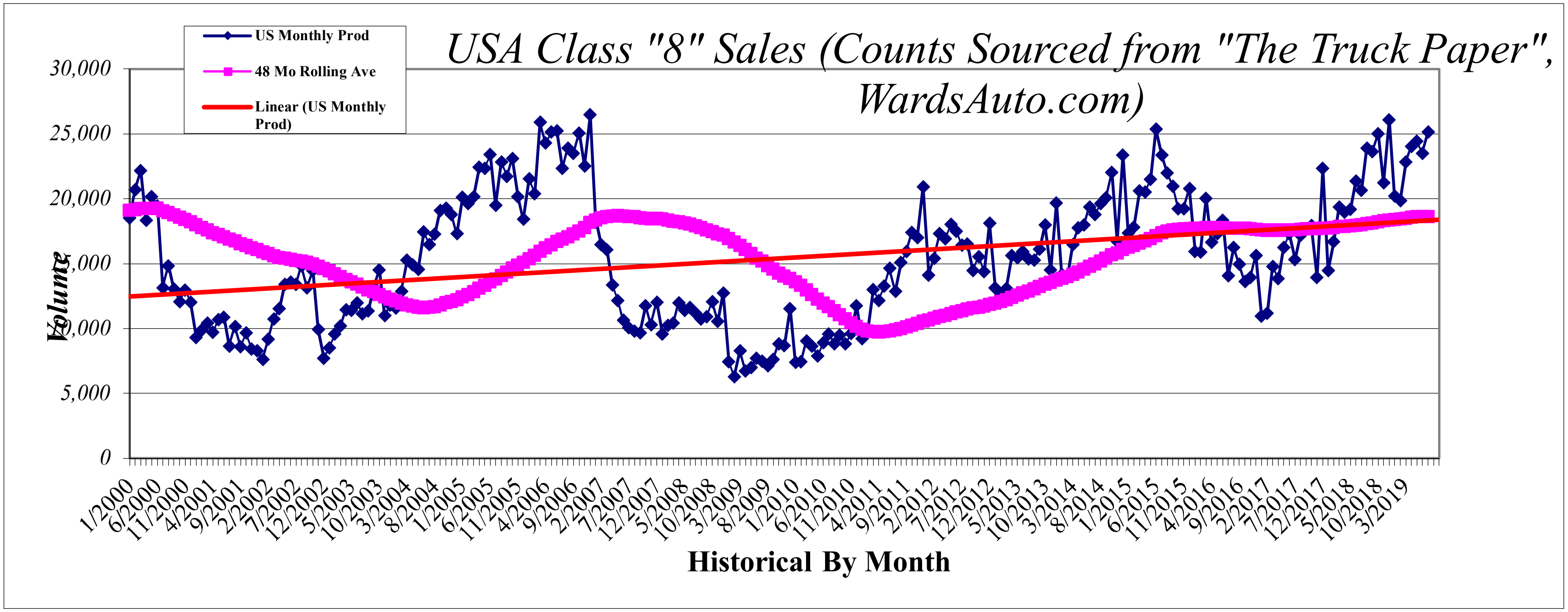
Auction bids are certainly lower. Stressed or failing trucking companies are increasing. Used equipment is in plentiful supply, and we still have a nervous economy as the backdrop. The overall advertised tractor numbers have increased by about 15% in the past three months and 87% higher than one year ago.

Overall monthly sales (new) are well above the trendline. The past twelve months have averaged 23,322 units/month (900 higher than last month's rolling average), new tractor sales since March, 2018 are all above the 48-month rolling average (48MRA). [Trendline (Red Line) has moved up to about 17,500-18,000 per month.] Both have been heading higher for many months. Sales data is now starting to uncover the issues that were only possible concerns three and six months ago.

Trailers are starting to tell an equally disturbing story, particularly for flatbeds and dry vans. Most classes are depreciating at or above their historical rates. On a positive note, trailer rental companies are still on firm ground. Rates are still firm and utilization is equal to one year ago.

We have included some of our updated data, charts and commentary which I hope you find both interesting and useful.

Tractors



As stated, each time before, the chart above shows historical trends that tend to repeat themselves. (Disclaimer: past activity does not necessarily indicate future activity.)

What are the data points and trends telling us now? (Some of my comments are repetitive, and may be found in previous newsletters, but again repeating a notable point makes it more likely to be remembered.)

1: Trucking typically runs in a 7 to 8-year cycle [peak to peak OR trough to trough]. As long as the new sales volume is above the 48MRA, the trend suggests we would see higher builds and values should erode more slowly. We are now above and have been above the 48MRA and have been for period of time. How long, going forward? Currently we have a reasonably healthy period of growth, but now we are seeing higher depreciation rates. Going forward, considering the short term, I anticipate higher than normal rates of depreciation for tractors. The 48MRA has been straddling the long-term trend line for the past two years.

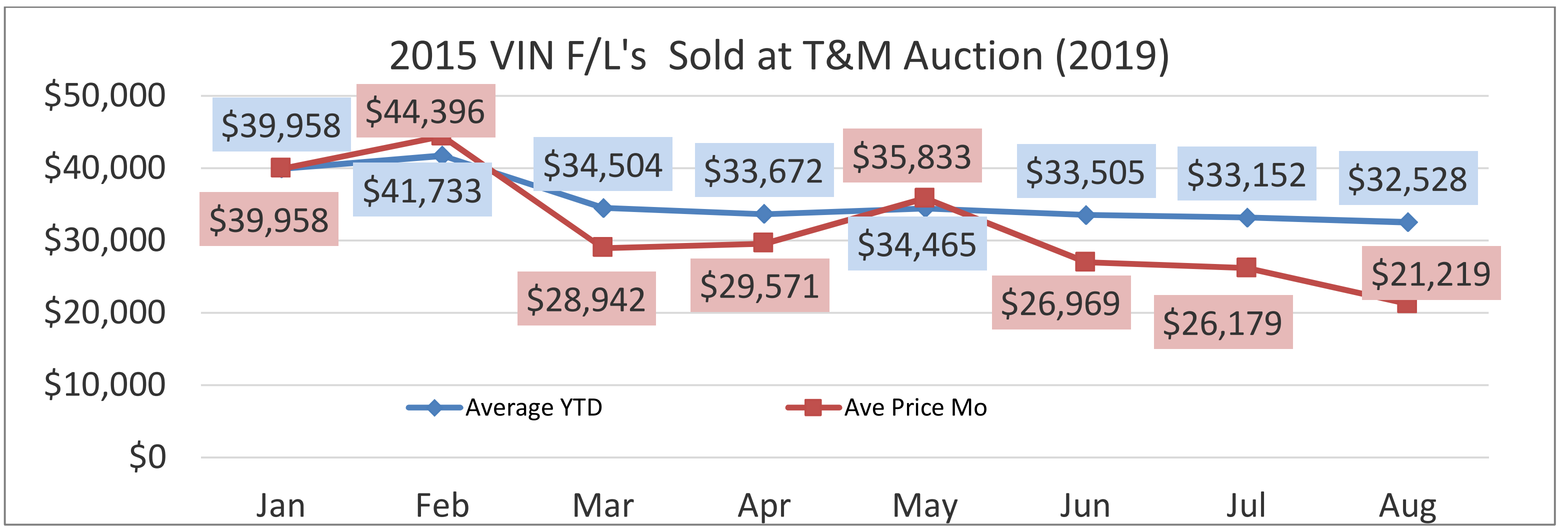
2: Historical needs have grown from slightly lower than 15,000 Class 8 tractors per month to about 17,500-18,000 Class 8 tractors per month. Currently, the 48MRA is 18,628. The overall late model fleet continues to inch higher (48MRA is 59 higher this past quarter). Historically we needed 15,000+ tractors per month. Today, given the HOS limitations, other governmental regulations and anticipated growth (this has disappeared) in the US economy the new benchmark may be up to 18,000 tractors per month. This is noted by the fact that the 48MRA is on/near the Linear Tend line. (Historical long-term Build/Wear Out number.) I anticipated some flattening, in trend, in the near term.

3: U.S. Sales ONLY: The 48MRA is the rolling average of all tractors 48 months old or newer. The 48MRA bottomed in 2/2011 (7-year low) with the 48MRA at 9,712. The previous 48MRA high was recorded in 5/2007 at an average of 18,678 (we are only 48 below the high in 2007), which was six months after the actual monthly sales peaked in 12/2006, when 26,462 units were sold. We marked a peak for monthly sales in 6/2015 with 25,369 units sold. Recent sales have continued at a strong/very strong pace, with the strong possibility of exceeding one, or both, of the past two cycle highs. This Cycle: Monthly High (12/2018) 26,083; 48MRA (7/2019) 18,628. In summary, we are back up to levels that have been troublesome in the past.

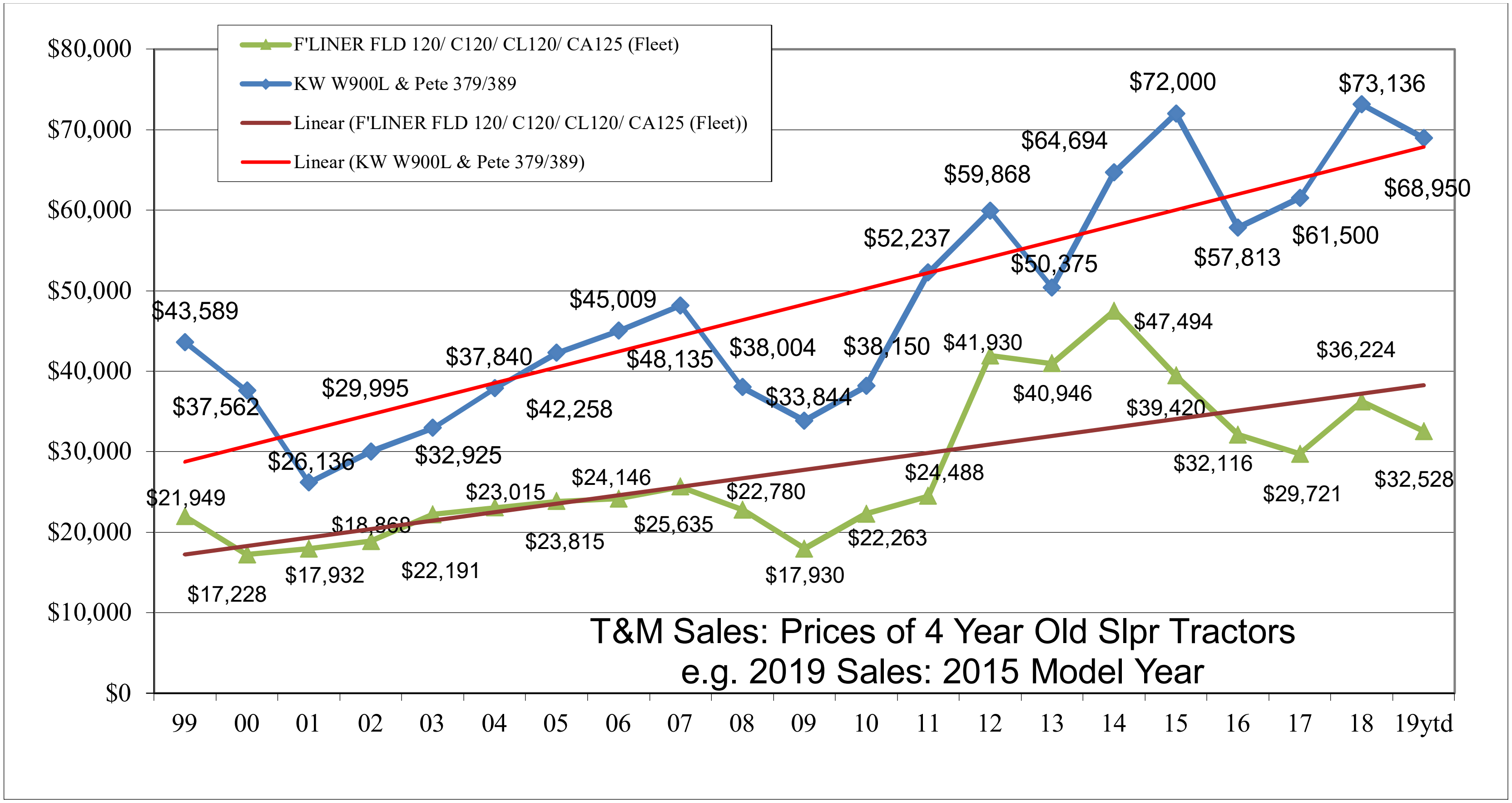
The Odd Statistic continues: Actual Class 8 purchases over the three most recent (published) months were very strong (average 24,363); whereas, new orders, have been in the low teens for the past three months. WHY? Most orders are for units which won't be built for several/many months and the drop, in orders, suggest optimism has dropped significantly.

4: Since the drawdown (~20%-30%) from July 2015 to July 2017, tractor prices had improved significantly. When considering fleet type tractors, recent auction results were up ~20% from the 2017 low. Used values have rolled over again, showing a significant decline in prices again.

The following new chart (2019 monthly sales prices: Taylor& Martin) shows significant weakness in the past six months (March-August).



Tractor Sales [Below]: (Average Price) are Year-to-Date (through August 30, 2019)



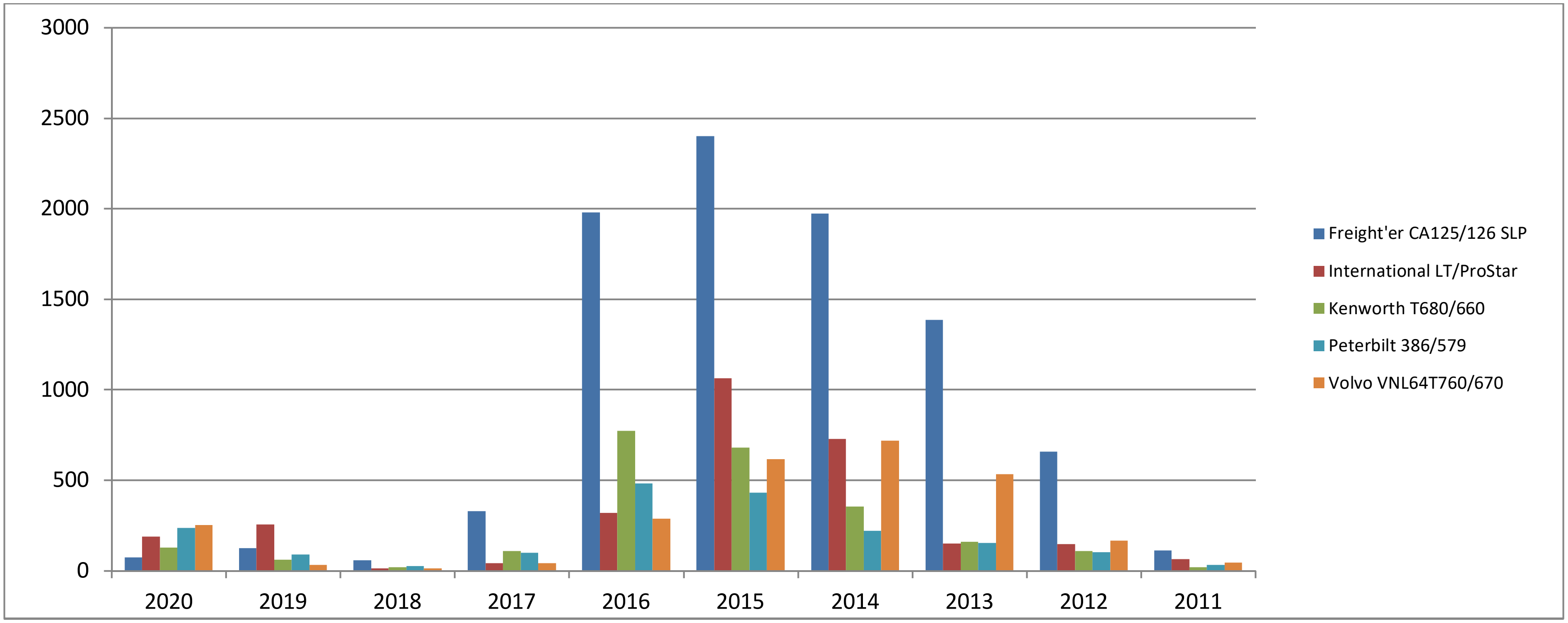
The average price of four-year old "fleet" tractors (sold at T&M Auctions) mirrors the trend of builds. [Further details found in the chart below.]

Above are T&M Sales by annual Quantities, below are T&M Sales by average annual Prices. [As usual, I have combined the Peterbilt 379/389 and Kenworth W900L tractors since both generally considered to be spec'd as Owner-Operator tractors.]

As the charts indicate, higher quality tractors (typically Owner/Operator specs) are faring better than fleet spec'd tractors. It should also be noted that the "fleet" tractors were nearly back to trend line; but failed and are declining, month over month (see page 4).

The trends (red and purple lines) over time have been higher, but the price declines (green & blue lines) are clearly evident (2001-2003 & 2008-2011 & 2015-2017 & now 2019). RCN is up (from material costs, EPA requirements, technology and safety/comfort improvements); additionally, inflation is included in the sale prices, thus the upward trend line.

What is available to the marketplace today? (Aug 31, 2019) See chart below. [Sleeper Tractors] There were about 2,889 more units "for sale" this quarter when compared to last quarter's totals. The "high count" years are typically for trade-ins or end of lease units. Low counts for 2017's, 2018's & 2019's indicate that most units are typically in the first lessee/owner's hands.



August 31, 2019^	Sleeper Tractors For Sale On TruckPaper.com: August 31, 2019									Ave. Age	2015.33		
Make	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	Total	% of Total	of Prev Qtr
Fr'tl'r CA125/126 SLP	289	78	131	566	2,224	3,181	1,856	1,084	510	113	10,032	45.827%	110.46%
Internat'l LT/ProStar	311	227	18	60	472	1,069	616	143	134	60	3,110	14.207%	104.96%
Kenworth T680/660	254	58	65	256	1114	724	374	150	104	14	3,113	14.220%	129.65%
Peterbilt 386/579	433	54	36	184	685	454	248	153	103	37	2,387	10.904%	128.26%
Volv VNL64T760/670	544	52	25	113	400	816	589	543	125	42	3,249	14.842%	120.56%
Year	1,831	469	275	1,179	4,895	6,244	3,683	2,073	976	266	21,891	100.00%	115.20%
August 31, 2019^											Increase	187%	Of 8/2018

Retail "For Sale" counts (total: 21,891), as charted above, are higher again, up about 15.20% when compared to last quarter (measuring 2011-2020 MYs) and 87.00% higher when compared to one year ago (measuring only Most Current 9 MYs). Inventories are building on dealer lots. Historic Reference: Sept, 2015: Total: 12,280; Dec, 2015: Total: 14,402; March, 2016: Total: 17,627; June, 2016: 19,618. Sept, 2016: 17,746; Dec, 2016: 17,712; March, 2017: 17,460; June, 2017: 18,481; Sept, 2017: 18,451; Dec, 2017: 17,722; March, 2018: 17,216; June, 2018: 14,723; Sept, 2018: 11,584; Dec, 2018: 12,354; March, 2019: 18,115; June, 2019: 19,002.

Considering the most current four quarters: Sept., 2019: Ave VIN: 2015.33; June, 2019: Ave VIN: 2014.93; Mar. 2019: Ave VIN: 2014.82. The average vintage, of the "for sale" assets, which indicates the inventory available has improved, a bit. June 1 to Aug. 31 only improved by .30 of a year (it should move .25) to stay current. One Year ago, the average age was 2014.40. Inventory available has grown and is seven-hundredths of a year older (by average and year adjusted), which tells me the overall quantity available is the issue, not age of the assets for sale.

Additional factors to consider for a bias (positive or negative):

Well qualified drivers continue to be in short supply. [Driver training schools are doing very well.] Demand for qualified (experienced, drug free and safe) drivers is strong. NOTHING HAS CHANGED HERE.

Thirty-one months into the current administration: Along with the political games being played between the Executive and Legislative Branches we now have to consider the impacts of trade tariffs (trade issues concern most industries). Election politics are also influencing opinions and actions. The net effect is Negative to the market.

The Crude Oil Industry is outlined in Robert Sandlin's "The Meter is Running", found at the end of this newsletter.

Building Activity (Home, Office, etc.): Areas slowing a bit: Interest rate sensitive. Rates have had significant declines. Concerns with other countries' economies and the rate cut in the US. Housing starts have slowed but interest in existing housing is still strong (except high-end properties), labor markets remain tight and unemployment is low. The 30-year mortgage rates are lower and are still some of the lowest rates in history which is encouraging.

Labor: There is a real shortage of qualified employees for many sectors, including transportation.

World economics: DISRUPTION! Tariffs and trade concerns are still the buzz; which, depending upon your industry, has little to major affects to the bottom line. With Washington DC politics and the world unknowns in play, people tend to become more defensive, fiscally. They retreat, hunker down, or reduce their risk, etc. Currently an all-out trade war is not imminent. If continued progress towards a resolution with China (primarily) and other trading partners (secondarily) doesn't arise the US economy will continue to slow down, along with most of the rest of world's economies. The amount, of slowdown, for each country, is dependent upon exposure. This is true for US companies as well.

Trailers

Trailer trends have started to indicate, with more certainty, what the tractor market has been telling us for several months; demand has softened, and equipment inventories are increasing. In the past 30 days, the trailer markets (class dependent) are showing weakness. Order cancellations are much higher than one year ago. Backlogs are still historically high. The slowdown that transportation experienced from July, 2015 through June, 2017 was primarily limited to the tractor market. [Yes, trailers dipped a little back then; however, not nearly to the extent that power prices slid.] We are seeing weakness in portions of the trailer market. Most notably in dry vans, combo [alum-steel] flatbeds and small cube pneumatic tank trailers. The US consumer is still doing their part, that is buying stuff. However, trade related demand is down. Historically, the direction of trailer values typically lagged tractors by several months; and now, we are seeing weakness in some trailer classes already. Anticipate higher rates of depreciation in more sectors, in the coming months.

Generally:

Ag trailers: Demand is still soft/weak due to ag commodity (grain, fiber & livestock) prices. Grain, Soybean and livestock prices have suffered due to tariffs. The overall crop conditions are good for what did get planted; though still slightly behind in maturity. An early frost would NOT be good for the industry!

Chemical Tank Trailers: Stable Pricing: raw products to manufacturing still good. Good used equipment in the secondary market is in very limited supply. Lesser quality trailers (e.g. out of test) are readily available. Chemical companies are anticipating expansion, based upon steady growth.

Pneumatic trailers: High load demand for large capacity trailers. Some recent auction results indicated softness for small cube trailers (i.e. 1040's). Utilization in the oil fields is down.

Construction activity should be supported, for a while, by committed building activity (apartments, commercial & houses). Additionally, flood repairs and rebuilding throughout the Midwest.

Flatbeds/Drop Decks: Stable/soft depending upon the asset's makeup: Construction remains solid (It takes a while to build out committed & started projects.) In-bound freight to manufacturers and finished goods reported steady. 53 Ft & 48 Ft Combo Flats lower, there is a large supply now available to the market, on dealer lots. RCN is steady to down. Market still has plenty of 2017's-2018's flatbeds and an abundance of 2019's for sale as well.

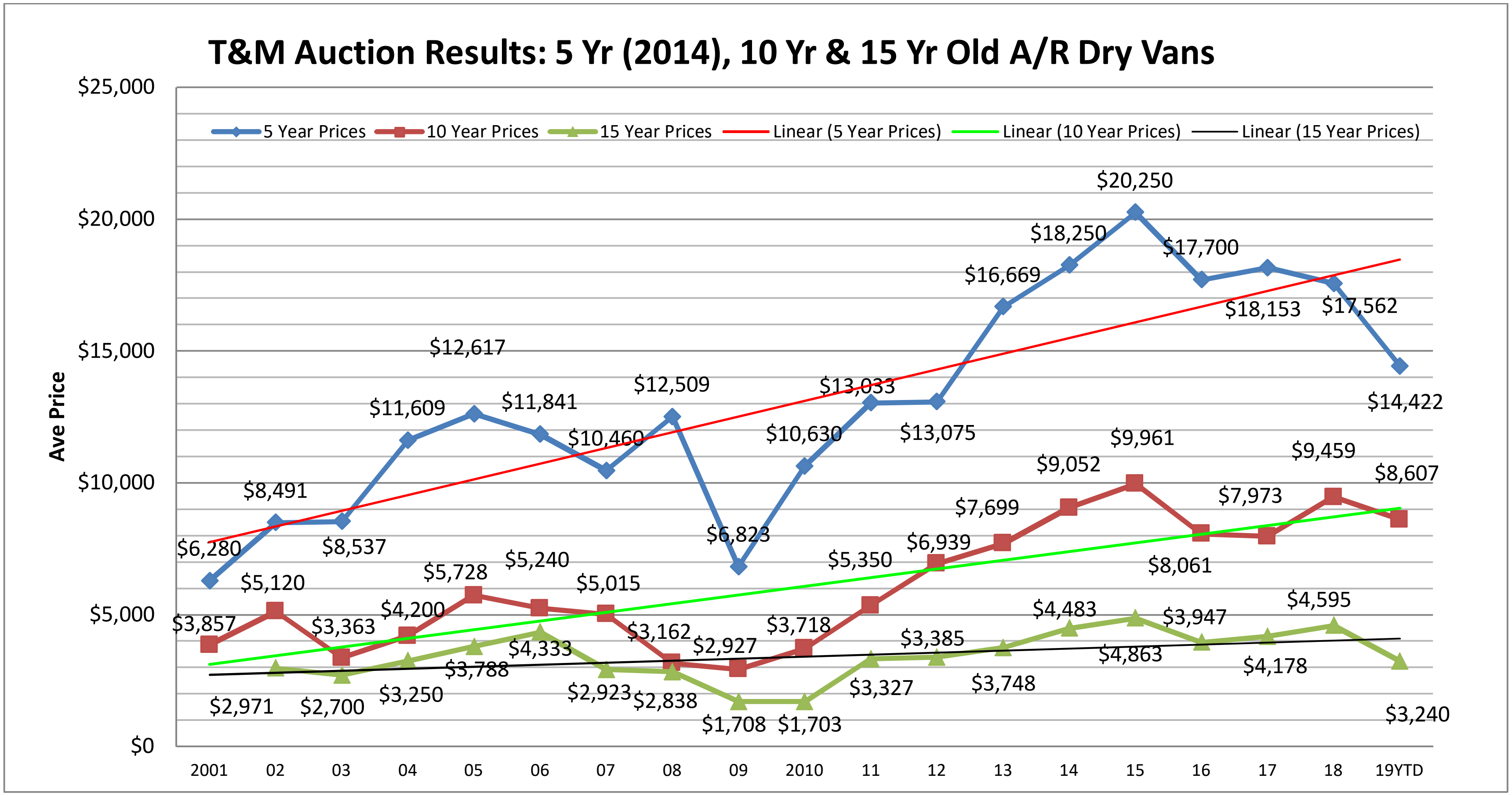
Heavy Haul Trailers: Demand improving, per conversations with dealers & manufacturers. RCN is stable, but subject to steel prices. New orders are up. Overall, orders are softening from a strong 2017, but still above historical averages.

Dry Vans & Reefers: Sales data indicate that the dry vans have, rather suddenly, shown significant declines. (Trade concerns, most likely), now generally reflect below "trend-line" for auction prices. I anticipate the market to be cautious until the China Trade Tariff impasse is settled.

Refrigerated trailers have started to show some weakness, particularly in Tier II and high hour trailers. If you recall, refrigerated trailers are not as vulnerable to world economic issues, people consume food every day. Refrigerated trailers are needed and used every day. NOTE: We are hearing of some stress on companies with refrigerated trailers as their primary trailer class.

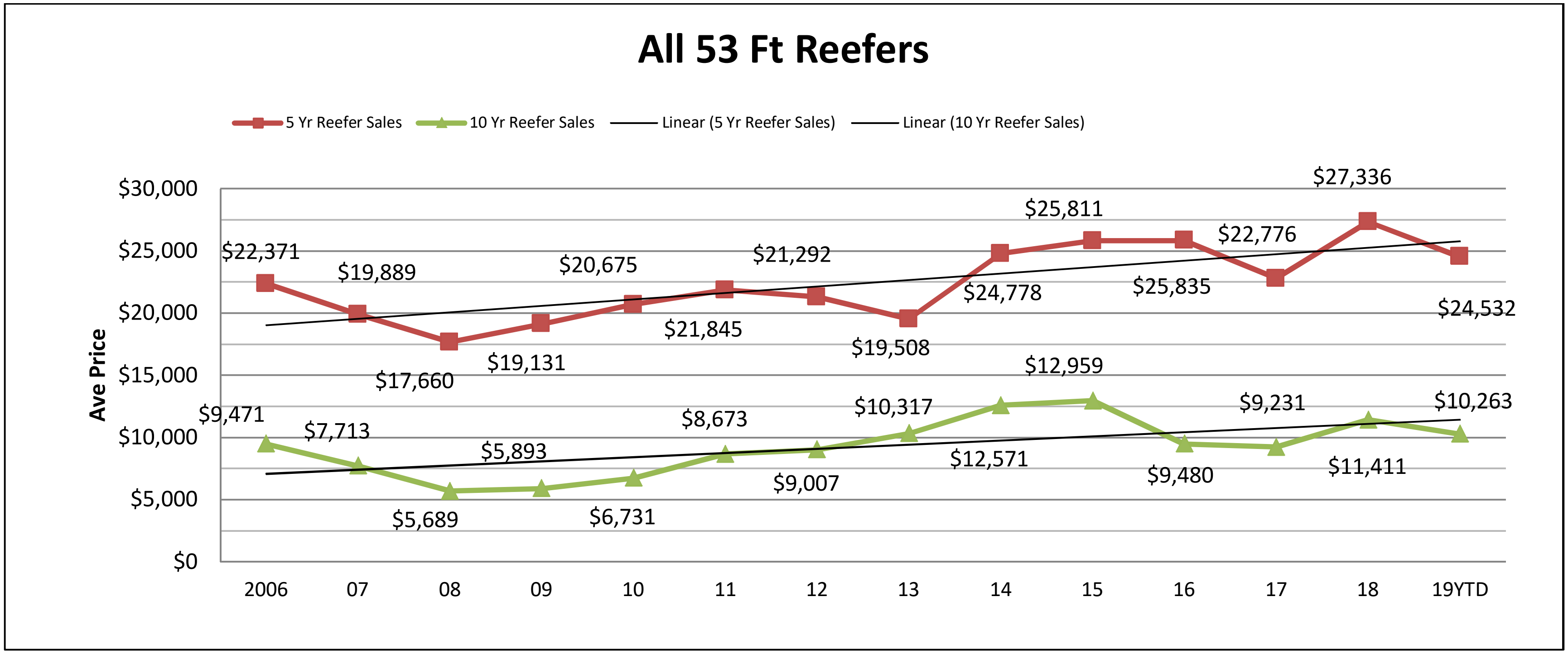
Overall, supply (new & used) currently seem to have moved to an imbalanced scenario. Freight volume have been waning. Somewhat surprising, rental fleets are enjoying good utilization and rental rates (dry van, flatbeds, step decks, reefers). Short-term rental commitments are through year-end. [Christmas surge]

Five, ten and fifteen-year old Dry Vans sales (Taylor & Martin Auctions) are charted below:



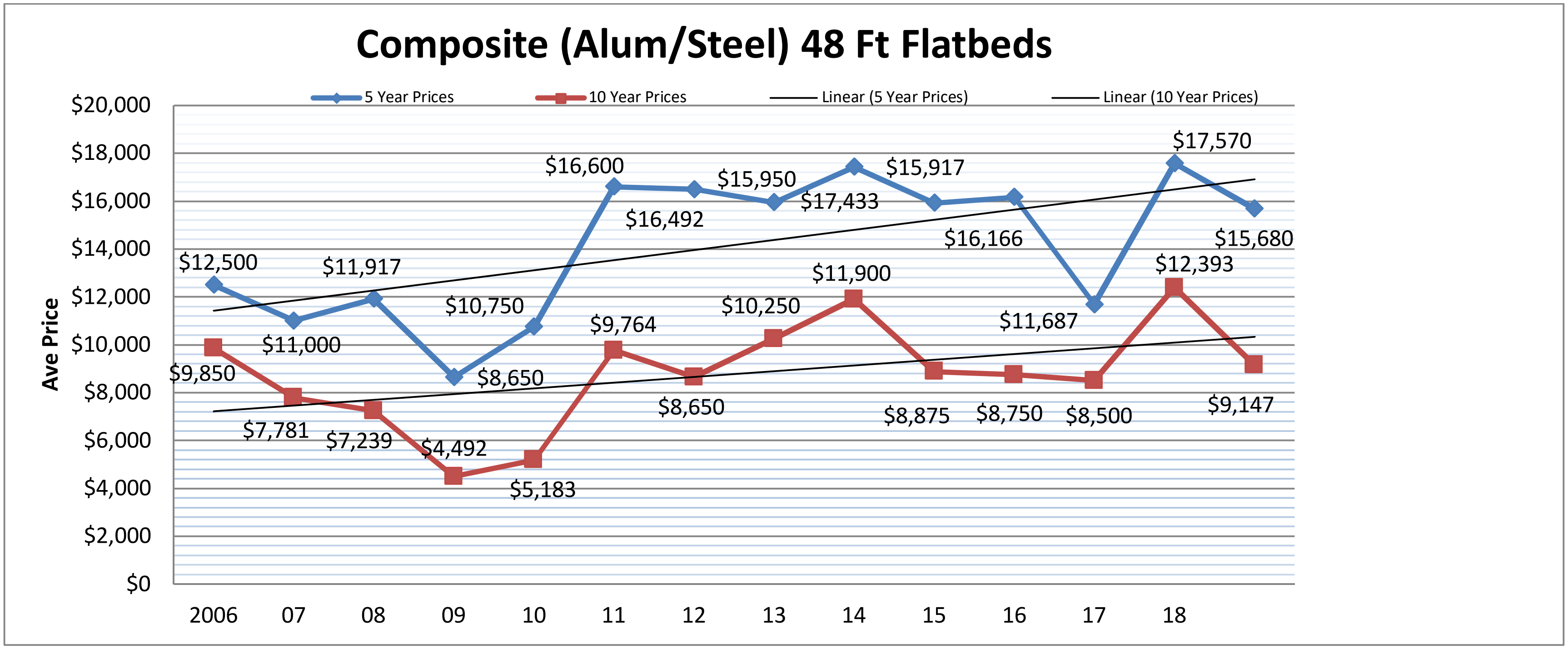
Dry vans have fallen below the long-term trend line, with the newer trailers considerably below trend line and ten-year old trailers are faring the best. Recent sales prices are lower than the averages shown.

Five and ten-year old Refrigerated Trailer sales (Taylor & Martin Auctions) are charted below:



Reefers: There is a clear distinction between Tier I and Tier II refrigerated trailer sales prices over the past eight months. Considering the Ten-Year-Old refrigerated trailers, Tier II trailer sale prices indicate a 40% discount to Tier I trailer sale prices. Both Five-Year-Old & Ten-Year-Old (2019YTD) Reefers are now below trendline. As stated previously, some carriers are experiencing financial duress in this segment.

Five and ten-year old Composite Flatbed sales (Taylor & Martin Auctions) are charted below:



Combo Flatbeds (Alum/Steel Composite) have shown significant weakness, when compared to 2018. To date, no five or ten-year-old combo flats have been sold by T&M in 2019. For the 2019 results, six year-year-old and eleven-year-old trailers were used. All sales were from this past quarter. Each group was adjusted up 12% to represent estimated 2019 results. 53 Ft Long flatbeds show similar results. RCN is lower.

The flatbed market had recovered from the 2015-2017 pullback. Actual sales numbers (2019YTD) as very low. Considering previously mentioned cautions, and the current number of flatbeds offered in the retail market, this segment is showing stress as well.

John Seymour's thoughts on filling The Meter!

Agriculture has been feeling significant pain all year long. Late planting, low commodity prices, lower yields probable, trade tensions, global demand lower, etc. The ag producers can't cut input costs for the current crops and livestock in the yards. They are committed through the harvest. Additionally, how do they cut equipment costs when replacement equipment needs are rising? Either they accept high maintenance costs or trade. Neither is a sound option, today.

The Meter (is Running)! A couple of thoughts from Bob Sandlin, while on the road:

The oil field is slowing down, rig counts are down to a total of 1,007 (last year's rig count: 1,152). West Texas Intermediate (WTI) is selling for $56.78 BBL. Drilled but Uncompleted (DUC) wells are at a total of 8,108 (July 2019) across 7 regions in the United States (June 2019 the DUC was 8,208).

Driving out to West Texas twice in the last month, I have noticed a large amount of equipment in the yards around the Permian Basin area. I did not see rigs being stacked into yards like 2015, but oilfield services of all types (rental equipment, drilling & well service, dealerships, and fuel delivery companies) are being affected. The quantity of equipment sitting in the yards is hard not to notice. Not all witnessed is doom and gloom, development continues in these areas. Buildings are being built and roads are being repaired that have needed it for a while. High volumes of trucks pulling all kinds of trailers are going up and down the roads. Until next time…

For additional information on a specific transportation sector (trucking), please feel free to contact us. Specifications, quantities and market niche should be considered. I am always happy to make a personal visit and am available to speak to your lending/leasing group, if you would like. We have only provided a brief and general overview of what we are seeing in the market.

Thanks,

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